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MEMORANDUM

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TO: Docket Control
Arizona Corporation Commission

FROM: *Ele2* Ernest G. Johnson
Director
Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

Date: February 4, 2002

RE: ICR WATER USERS ASSOCIATION, INC., APPLICATION FOR AN
EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY
TO PROVIDE WATER SERVICE IN YAVAPAI COUNTY, ARIZONA
(DOCKET NO. W-02824A-01-0900)

Attached is the Staff Report for the above referenced application. Staff is recommending approval of the application following a hearing.

Originator: Jim Fisher

Attachment: Original and Eleven Copies

Arizona Corporation Commission

DOCKETED

FEB 05 2002

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|-------------|------------|

Service List for: ICR Water Users Association, Inc.
Docket No. W-02824A-01-0900

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

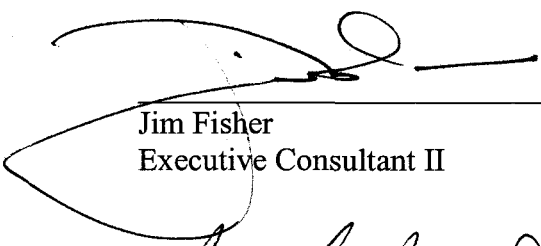
**ICR WATER USERS ASSOCIATION, INC.
DOCKET NO. W-02824A-01-0900**

**APPLICATION FOR AN EXTENSION OF ITS
CERTIFICATE OF CONVENIENCE AND NECESSITY
TO PROVIDE WATER SERVICE IN
YAVAPAI COUNTY, ARIZONA**

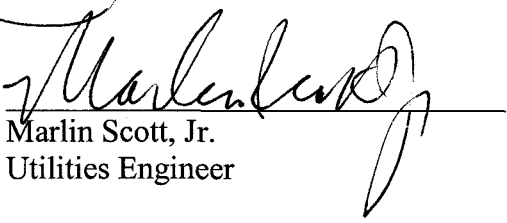
FEBRUARY 2002

STAFF ACKNOWLEDGMENT

The Staff Report for ICR Water Users Association, Inc., Docket No. W-02824A-01-0900 was the responsibility of the Staff members listed below. Jim Fisher was responsible for the review and analyses of the Company's application. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Patrick Williams was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Jim Fisher
Executive Consultant II



Marlin Scott, Jr.
Utilities Engineer

EXECUTIVE SUMMARY
ICR WATER USERS ASSOCIATION, INC.
DOCKET NO. W-02824A-01-0900

ICR Water Users Association, Inc. ("ICR" or "Company") is an Arizona corporation engaged in providing water utility service within portions of Yavapai County, Arizona. The Company was granted its initial CC&N on August 30, 1995, and currently has seventy-one (71) customers. On January 15, 2002, by Decision No. 64360, ICR was granted a CC&N extension to an additional 3,700 acres. By this application, ICR is seeking to extend its current CC&N south to include an adjacent property, Whispering Canyons, a proposed residential subdivision of approximately 450 residents. The developer of the property, Whispering Canyons, L.L.C. entered into a Line Extension Agreement with ICR on March 12, 2001.

The Line Extension Agreement requires Whispering Canyons to design and construct on-site and off-site facilities to meet the requirements of the development and be conveyed to ICR when completed. The facilities are expected to cost in excess of \$3,600,000. According to the Agreement, "off-site and the on-site facilities constructed pursuant to this Agreement shall become, and remain the sole property of ICR without the requirement of any written document or transfer to ICR." However, ICR representatives assert some of the utility plant remaining the property of a third party. In addition, the March 12, 2001 agreement eliminates any refunds to the developer for the advanced facilities.

Staff recommendations include the following:

- 1.) That the Commission grants the ICR application for an Extension to its Certificate of Convenience and Necessity to provide water service, subject to compliance with conditions.
- 2.) That any constructed well should be conveyed to ICR.
- 3.) That ICR be required to provide consistent refunds on line extension agreements.
- 4.) That the Commission require the ICR to file a copy of the Arizona Department of Water Resources findings that the developer has demonstrated an adequate physical availability of water to serve the extension area.
- 5.) That the Commission require the ICR to file Arizona Department of Environmental Quality approvals for construction of all water facilities, with the appropriate main extension agreement.
- 6.) That the Commission's Decision be considered null and void without further order from the Commission should ICR fail to meet any of the conditions within the time specified.

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Introduction

On November 13, 2001, ICR Water Users Association, Inc., an Arizona corporation, ("ICR"), filed an application with the Arizona Corporation Commission ("ACC") requesting approval for an extension of its existing Certificate of Convenience and Necessity, ("CC&N") in Yavapai County, Arizona.

Background

ICR is an Arizona corporation engaged in providing water utility service within portions of Yavapai County, Arizona. The Company was granted its initial CC&N on August 30, 1995, in Decision No. 59263. The Company currently has seventy-one (71) customers. By Decision No. 64360, January 15, 2002, ICR was granted a CC&N extension to an additional 3,700 acres.

By this application, ICR is seeking to extend its current CC&N south to include an adjacent property, Whispering Canyons, L.L.C., ("Whispering Canyons") a proposed residential subdivision of approximately 450 residents. The developer of the property, Whispering Canyons, entered into a Line Extension Agreement with ICR on March 12, 2001.

The Line Extension Agreement

The Line Extension Agreement requires Whispering Canyons to design and construct on-site and off-site facilities to ensure sufficient capacity to meet the requirements of the development. The facilities are to be developed in phases and conveyed to ICR when completed. The developer is to construct the facilities in strict conformance with the approved plans and guidelines of the Yavapai County Health Department. The facilities are expected to cost in excess of \$3,600,000.

According to ICR the off-site improvements are to include upgrading a current production well and construction of a back up well. In the original CC&N the ACC authorized ICR and a developer, Pierce, to enter into a long-term water sale agreement. ICR purchases water from this "Pierce Well" via a transmission main. Whispering Canyon has agreed to upgrade the "Pierce Well" with a higher volume pump and construct a separate back-up well which will also be located on property owned by Pierce.

According to ICR representatives, the up-graded "Pierce well" and back-up well shall be owned by Pierce. However, according to Section 6 of the March 12, 2001, Line Extension Agreement, "off-site and the on-site facilities constructed pursuant to this Agreement shall become, and remain the sole property of ICR without the requirement of any written document or transfer to ICR." The March 12, 2001, Line Extension Agreement makes no mention of upgrades to the "Pierce Well" nor any mention of such upgrades remaining the property of a third party.

Prior Well Ownership Requirements

On January 15, 2002, in Decision No. 64360, ICR was authorized an extension to its CC&N to include in excess of 3,000 acres which are to be developed as Talking Rock Ranch, a residential subdivision containing approximately 1,500 residential dwellings. The development will also include common areas, clubhouse, swimming pool, fitness center and an eighteen-hole golf course, with storage lakes.

In Decision No. 64360, the ACC required the developer to include in its advance to ICR, the wells it drilled to provide water to the extension area. The ACC required this to ensure that the utility has adequate water for its customers and to ensure that they are not subject to relying on a non-ACC jurisdictional third party for water.

Refunding Requirements

ICR entered into a Main Extension Agreement with the prior developer that required ICR to refund to the developer fifteen percent of the gross annual operating revenues from water sales to customers in the extension property for a period of 25 years. However, the March 12, 2001, agreement, Section 11, specifically eliminates any refunds to the developer for the advanced facilities. This section is contrary to rule Arizona Administrative Code ("A.A.C.") R14-2-406 (D) that requires a minimum refund of ten percent of the revenue associated with the line extension refunded to the developer for a minimum of ten years.

Staff is concerned that two different parties have been treated differently in substantial financial transactions with a regulated utility. Providing one party a substantial refund and denying another any refund is discriminatory.

Staff recommends consistent treatment between this application, and the application in Decision No. 64360. Specifically, Staff recommends that any constructed well should be conveyed to ICR. Furthermore ICR should be required to treat parties consistently. ICR should be required to provide a refund consistent with rule A.A.C. R14-2-406. The refund provision in ICR's agreement with the prior developer was consistent with rule A.A.C. R14-2-406.

ICR's Existing Water System

According to ICR's 2000 Annual Report, ICR has a water system consisting of a well, storage tank, booster system and a distribution system serving 67 customers. This system has one operating well having a capacity of 225 gallons per minute ("GPM"), a 110,000 gallon storage tank, three 20-horsepower (Hp) booster pumps, a 3,200 gallon pressure tank, and a distribution system consisting of 72,400 feet of main with 32 fire hydrants. The filed application indicated the customer base was now at 71.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ICR has no major deficiencies and the ADEQ has determined that this system, PWS # 13-303 is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. ICR stated it would provide the Certificate of Approval to Construct with the submittal of a main extension agreement.

Arizona Department of Water Resources ("ADWR") Compliance

ICR's existing system is just outside the western boundary of the Prescott Active Management Area. The requested extension area is also just outside the western boundary. Since ICR is not located in this Prescott AMA, ICR should be required to obtain an Adequate Water Supply Certificate for this proceeding.

Proposed Plant for Requested Area

ICR submitted cost estimates of plant facilities for the Whispering Canyons project at \$3,598,320. Staff has reviewed these costs and found them to be reasonable. A table showing a breakdown of these costs is shown on Attachment A of this report.

Staff's recommendation for approval of this CC&N extension application and its submitted plant facilities does not imply a recommendation for any particular future treatment for ICR's rate base. No "used and useful" determination of the proposed plant facilities was made, and no conclusions should be inferred for ratemaking or rate base purposes.

Proposed Rates

ICR has agreed to extend service to the property at its tariffed rates.

Recommendations

Staff recommends that the Commission grant the ICR Water Users Association, Inc., application for an Extension to its Certificate of Convenience and Necessity to provide water service, subject to compliance with the following conditions:

Staff further recommends that the Commission require the March 12, 2001, ICR's, Line Extension Agreement be amended to reflect conveyance of any new well to ICR.

Staff further recommends that the Commission require the March 12, 2001, ICR Water Users Association, Inc., Line Extension Agreement be amended to include a refund to the developer consistent with Rule A.A.C. R14-2-406.

Staff further recommends that the Commission require the ICR Water Users Association, Inc., to file with the Director of the Utilities Division, a copy of the Arizona Department of

Staff further recommends that the Commission require the ICR Water Users Association, Inc., to file with the Director of the Utilities Division, a copy of the Arizona Department of Water Resources findings that the developer has demonstrated an adequate physical availability of water to serve the extension area, within 365 days from the effective date of the Commission's Decision.

Staff further recommends that the Commission require the ICR Water Users Association, Inc., to file with the Director of the Utilities Division, the Arizona Department of Environmental Quality approvals to construct of all water facilities, with the appropriate main extension agreement, or within 365 days from the effective date of the Commission's Decision, which ever is sooner.

Staff further recommends that the Commission's Decision granting this Extension of a Certificate of Convenience and Necessity to the ICR Water Users Association, Inc., be considered null and void without further order from the Commission should ICR Water Users Association, Inc., fail to meet any of the above conditions within the time specified.

Staff further recommends that the Commission require ICR Water Users Association, Inc., charge its existing rates in this extension area.

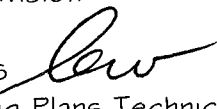
WHISPERING CANYONS COST ESTIMATE FOR CONSTRUCTION OF WATER FACILITIES


| ITEM NO. | ITEM DESCRIPTION | ITEM PRICE | YEAR 1 92 LOTS PHASE: 1-2 | | | YEAR 2 107 LOTS PHASE: 3-5 | | | YEAR 3 116 LOTS PHASE: 6-8 | | | YEAR 4 38 LOTS PHASE: 9 | | | YEAR 5 47 LOTS PHASE 10-11 | | |
|---------------------------------|--------------------------|------------|---------------------------------|-------------|-----------|----------------------------------|-----------|-----------|----------------------------------|-----------|-----------|-------------------------------|-----------|------|----------------------------------|------|------|
| | | | NO. ITEMS | COST | NO. ITEMS | COST | NO. ITEMS | COST | NO. ITEMS | COST | NO. ITEMS | COST | NO. ITEMS | COST | NO. ITEMS | COST | COST |
| 1 | 8" WATER MAIN LINE | \$30 | 24,755 | \$742,650 | 11,445 | \$343,350 | 13,693 | \$410,790 | 8,974 | \$269,220 | 6,293 | \$188,790 | | | | | |
| 2 | 12" WATER MAIN LINE | \$40 | 0 | \$0 | 0 | \$0 | 3,240 | \$129,600 | 0 | \$0 | 0 | \$0 | | | | | |
| 3 | 8" GATE VALVE | \$600 | 64 | \$38,400 | 26 | \$15,600 | 24 | \$14,400 | 20 | \$12,000 | 13 | \$7,800 | | | | | |
| 4 | 12" GATE VALVE | \$1,000 | 0 | \$0 | 0 | \$0 | 3 | \$3,000 | 0 | \$0 | 0 | \$0 | | | | | |
| 5 | AIR RELEASE VALVE | \$1,000 | 43 | \$43,000 | 5 | \$5,000 | 15 | \$15,000 | 20 | \$20,000 | 15 | \$15,000 | | | | | |
| 6 | BLOW OFF ASSEMBLY | \$900 | 14 | \$12,600 | 9 | \$8,100 | 10 | \$9,000 | 3 | \$2,700 | 4 | \$3,600 | | | | | |
| 7 | SINGLE SERVICE & METER | \$1,100 | 12 | \$13,200 | 17 | \$18,700 | 38 | \$41,800 | 38 | \$41,800 | 27 | \$29,700 | | | | | |
| 8 | DOUBLE SERVICE & METER | \$1,100 | 40 | \$44,000 | 45 | \$49,500 | 39 | \$42,900 | 0 | \$0 | 10 | \$11,000 | | | | | |
| 9 | FIRE HYDRANT | \$2,300 | 25 | \$57,500 | 22 | \$50,600 | 33 | \$75,900 | 20 | \$46,000 | 10 | \$23,000 | | | | | |
| 10 | PRESSURE RELIEF VALVE | \$16,000 | 0 | \$0 | 0 | \$0 | 1 | \$16,000 | 0 | \$0 | 0 | \$0 | | | | | |
| 11 | WATER TANK: 323,000 GAL. | \$180,000 | 1 | \$180,000 | 0 | \$0 | 0 | \$0 | 0 | \$0 | 0 | \$0 | | | | | |
| 12 | OFF-SITE BOOSTER STATION | \$120,000 | 1 | \$120,000 | 0 | \$0 | 0 | \$0 | 0 | \$0 | 0 | \$0 | | | | | |
| 13 | ON-SITE BOOSTER STATION | \$100,000 | 0 | \$0 | 0 | \$0 | 0 | \$0 | 1 | \$100,000 | 0 | \$0 | | | | | |
| COST PER YEAR: | | | | \$1,251,350 | | \$490,850 | | \$758,390 | | \$491,720 | | \$278,890 | | | | | |
| 10% CONTINGENCY: | | | | \$125,135 | | \$49,085 | | \$75,839 | | \$49,172 | | \$27,889 | | | | | |
| COST PER YEAR PLUS CONTINGENCY: | | | | \$1,376,485 | | \$539,935 | | \$834,229 | | \$540,892 | | \$306,779 | | | | | |

TOTAL COST OF PROJECT: \$3,598,320

MEMORANDUM

TO: Jim Fisher
Executive Consultant II
Utilities Division

FROM: Barb Wells 
Engineering Plans Technician
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: January 14, 2002

RE: **ICR WATER USERS ASSOCIATION, INC. (DOCKET NO. W-02824A-01-0900)**

The area requested by ICR Water Users for an extension has been plotted with no complications.

Attached is a copy of the map for your files.

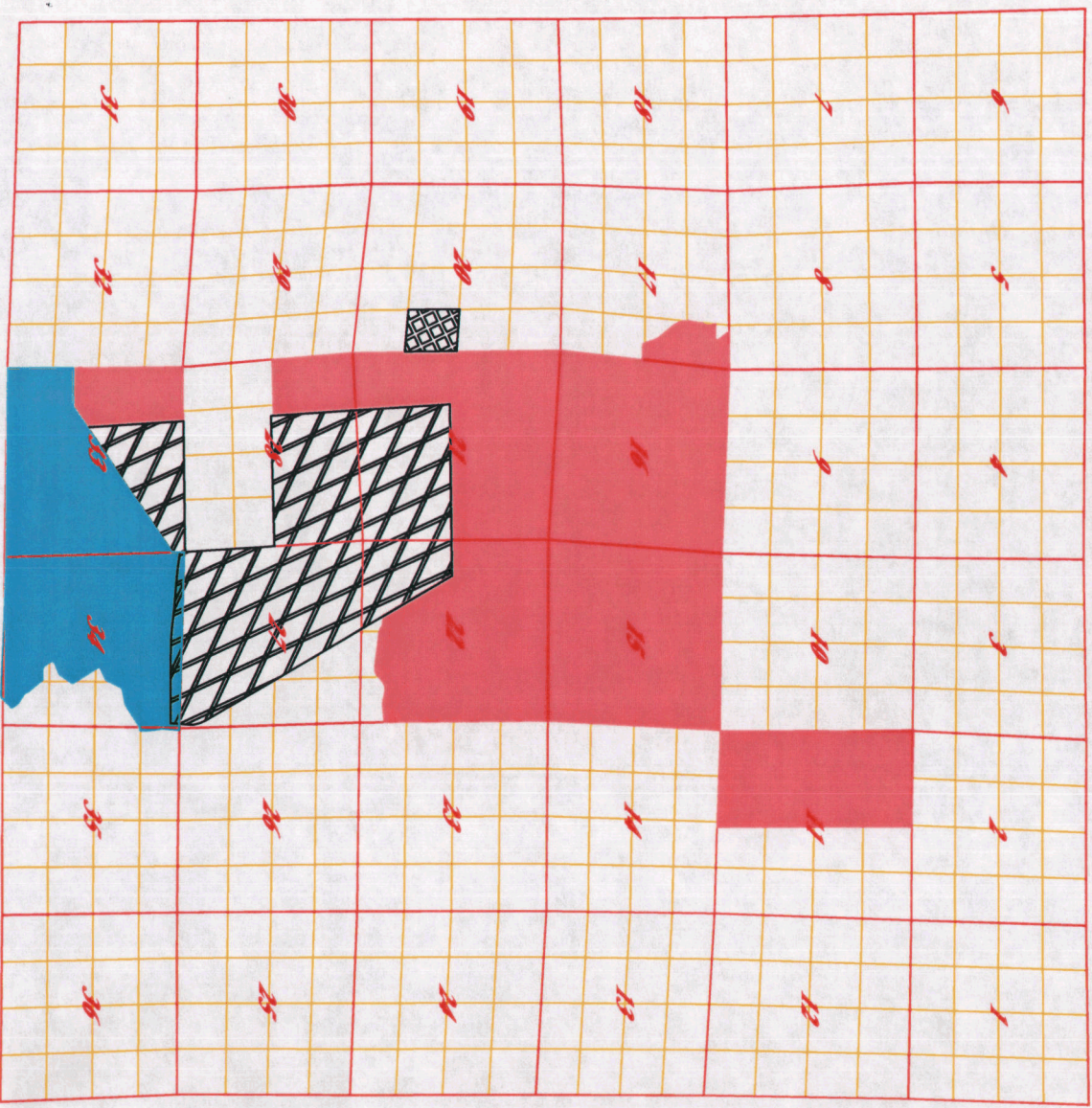
:bsw

Attachment

cc: Docket Control
Mr. Swayze McCraine
Ms. Debbi Person
File

COUNTY: Yavapai

RANGE 3 West



TOWNSHIP 16 North

W-2504 (1)
Meadow Water Company

W-2824 (1)
ICR Water Users Association

ICR Water Users Association
Docket No. W-2824-01-450
Application for Extension

ICR Water Users Association
Docket No. W-2824-01-900
Application for Extension

Exhibit A

A portion of Sections 33 and 34, Township 16 North, Range 3 West, Gila and Salt River Base and Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the corner common to Sections 27, 28, 33 and 34 of Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, monumented with a brass cap stamped, "W.J. Check; P.E. NO. 2398";

Thence along the line common to Sections 33 and 34, South 00 degrees 23 minutes 28 seconds West, 382.57 feet;

Thence departing the line common to Sections 33 and 34, South 55 degrees 49 minutes 36 seconds West, 5,326.57 feet;

Thence South 89 degrees 47 minutes 13 seconds West, 1,051.14 feet, to the West line of Section 33;

Thence along the West line of Section 33, South 00 degrees 12 minutes 47 seconds East, 1,992.80 feet, to the Southwest corner of Section 33, monumented with a General Land Office Survey brass cap;

Thence along the South line of Section 33, South 89 degrees 38 minutes 18 seconds East, 2,710.90 feet, to the South quarter corner of Section 33, monumented with a General Land Office Survey brass cap;

Thence continuing along the South line of Section 33, South 89 degrees 43 minutes 13 seconds East, 2,705.54 feet, to the Southeast corner of Section 33 and the Southwest corner of Section 34, monumented with a General Land Office Survey brass cap;

Thence along the South line of Section 34, South 87 degrees 44 minutes 28 seconds East, 2,693.48 feet, to the South quarter corner of Section 34, monumented with a General Land Office Survey brass cap;

Thence continuing along the South line of Section 34, South 87 degrees 50 minutes 49 seconds East, 1,547.40 feet;

Thence departing the South line of Section 34, North 45 degrees 32 minutes 06 seconds East, 249.67 feet;

Thence North 46 degrees 27 minutes 18 seconds East, 227.64 feet;

Thence North 28 degrees 06 minutes 24 seconds West, 95.72 feet;

Thence North 40 degrees 18 minutes 23 seconds West, 149.00 feet;

Thence North 57 degrees 38 minutes 52 seconds West, 261.34 feet;

Thence North 51 degrees 03 minutes 55 seconds West, 98.30 feet;

Thence North 23 degrees 31 minutes 58 seconds West, 107.05 feet;

Thence North 39 degrees 49 minutes 43 seconds West, 576.55 feet;

Thence North 89 degrees 59 minutes 59 seconds West, 332.00 feet;

Thence North 57 degrees 35 minutes 51 seconds West, 111.89 feet;

Thence North 31 degrees 49 minutes 09 seconds West, 253.35 feet;

Thence North 23 degrees 51 minutes 50 seconds East, 96.11 feet;

Thence North 68 degrees 53 minutes 54 seconds East, 385.86 feet;

Thence North 33 degrees 26 minutes 09 seconds East, 493.95 feet to the Southwesterly line of the Western Power authority electrical power transmission line;

Thence along said Southwesterly line, North 31 degrees 52 seconds 34 minutes West, 957.74 feet;

Thence departing said Southwesterly line North 64 degrees 52 minutes 53 seconds East, 453.56 feet;

Thence North 25 degrees 09 minutes 04 seconds East, 559.18 feet;

Thence North 78 degrees 37 minutes 30 seconds East, 520.03 feet;

Thence North 58 degrees 10 minutes 11 seconds East, 813.86 feet;

Thence South 54 degrees 51 minutes 52 seconds East, 90.87 feet to a point on the Westerly right of way of Williamson Valley Road (a.k.a. Prescott-Simmons Highway), per the map filed and recorded in Book 10 of Maps, page 17 in the Office of the Recorder of Yavapai County, said point being a point of curvature;

Thence along the Westerly right of way, along a curve to the right, having a chord bearing North 05 degrees 02 minutes 17 seconds West, a chord length of 642.38 feet, a radius of 1,959.86 feet, a central angle of 18 degrees 51 minutes 53 seconds and an arc length of 645.29 feet (recorded as having a radius of 1,959.86, a central angle of 18 degrees 52 minutes and an arc length of 645.35 feet);

Thence continuing along the West right of way, North 04 degrees 24 minutes 08 seconds East, (recorded as North 04 degrees 21 minutes East) 554.93 feet, to a point on the North line of Section 34;

Thence along the North line of Section 34 North 88 degrees 21 minutes 20 seconds West, 2,488.09 feet, to the North quarter corner of Section 34 monumented with brass cap stamped "W.J. Check; P.E. NO. 398";

Thence continuing along the North line of Section 34, North 88 degrees 20 minutes 49 seconds West,
2,738.88 feet to the POINT OF BEGINNING.

EXCEPT the Northerly 100 feet of the Westerly 100 feet of the Northwest quarter of said Section 34.